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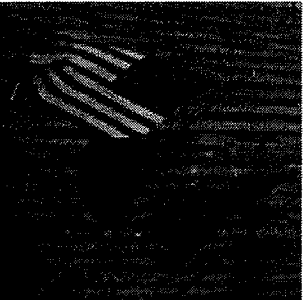


Print Edition

"The important thing is to concentrate upon what you can do - by yourself, upon your own initiative."

- Harry Browne

Chinese bank announces bombshell



Chris Hondros/Getty Images

Yesterday on their website, the People's Bank of China announced a shocker. New Chinese bank lending for June was 1.53 trillion yuan (\$224 billion), double the lending in May. The total already for the year is an astounding 7.4 trillion yuan when the target for the entire year was 5 trillion. Putting this in context, total lending this year so far has amounted to 25% of 2008 GDP. As I wrote earlier this week, Chinese regulators are getting concerned that this lending is going towards poor credit and bleeding into commodity market speculation. As most know, bank lending is high powered monetary stimulus due to its high velocity. This is the key difference between fiscal

July 10, 2009 15:15 EST

	Price	Change
Gold	912.30	+0.00
Silver	12.63	-0.19
Platinum	1105.00	-1.00

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stimulus vs. monetary stimulus. Actually, monetary stimulus will only work well if the banks receiving the funds lend them out. In the US, this is clearly not happening due to banks loan losses and caution over new lending (expanding balance sheet.) In China, this is not the case and new loans are flowing. - CNBC

Dominant Social Theme: China is heating up.

Free-Market Analysis: We've written about this before. China backed into "capitalism" about 30 years ago and the impetus for where it is now was increased by the problems with Tiananmen Square. The Chinese leaders are not interested in political theory at this point (if they ever were). Their currency is power and the way to maintain power is to create an apolitical system where citizens "can grow rich." Western systems work a good deal better than communist systems in this regard. And thus China has built a facade of a Western system.

Yes, it is really only an imitation of a Western system (from a political and big business perspective anyway) in our opinion, just as its banks are only imitations of Western banks and its stock markets are only imitations as well. In fact, to grow rich by investing in the Chinese stock market one apparently simply has to listen intently to the noises coming from the government as to what companies will grow and what companies will not. As far as the banks go, the system is probably even more basic than in the West. The central bank prints as much money as it can, and the commercial banks disseminate it. These banks may act as independent entities, but they still have a foot in state government as do many large companies in China.

It is all fairly well jury rigged. China has incorporated a facade of Westernism but to cast China as the world's financial engine is to understand how desperate the West has become. China's economy grows by 10 and 15 percent a year, and now appears be heating up even more. This is not normal growth but central banking generated growth. The same clique still runs China, but the economy has been supercharged by additional printing.

China is said to be turning inward now, as Western countries cannot afford to buy its products. But whether China will be able to maintain its growth by using its own huge population as a purchasing pool remains to be seen. What will certainly happen sooner or later is that the supercharged money being used by the Chinese will create the same boom-bust cycle as has happened elsewhere. Only when it ends in China after so many years, it will be the

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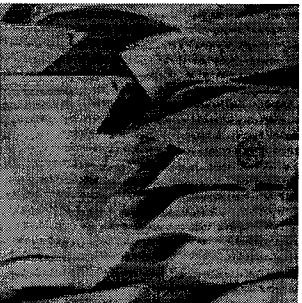
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mother-of-all blow-offs.

Conclusion: It is difficult to see what Chinese leaders expect to happen once the bubble busts. Maybe they are gambling that they can control the unrest that will come in its wake. Maybe they assume the bubble will not bust for many years. But articles like the one excerpted above show us that sooner or later China's overheated and pseudo-Western economy will implode, and likely even more violently than Western economies ever have. And here's a thought: The Chinese in the meantime are said to be big buyers of gold on a government level and also personally. Perhaps what is going to eventually happen is better known in China than the West.

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Jobless claims indicate economy remains weak



Chris Hondros/Getty Images

Labor Department said Thursday. But the drop was mostly due to a shift in the timing of auto-related layoffs, leading many economists to discount the decline. - *Baltimore Sun*

Dominant Social Theme: Jobless problems continue.

Free-Market Analysis: It cannot be written too many times since the mainstream media will not really write it at all: The recovery, such as it is, has basically involved propping up a number of companies, mostly banks, that

of the Quantitative Theory of Money

5/19/09 - Swiss Perspective: A Brief History of Free-Market Economics and Thinkers

would otherwise have gone out of business. The amount of money that has been expended, if one adds in all the contributions of central banks, is probably over US\$20 trillion (or more) by now for Japan, Europe, Britain and America. The monetary elite will do ANYTHING to keep fiat money balls in the air in our opinion.

The rationale for pumping out so much money is to "stabilize the financial system." The system however, does not need stabilizing. The Western marketplace needs to revert to a more open economy of the sort that caused the great industrial revolutions of 18th and 19th century. The 20th century in America anyway was marked by conversion to a service economy - which was supposed to be just as wealth-producing as an industrial economy. The idea was that third world countries would make things while America in particular would concentrate on the high-end stuff and on services. But it didn't work out that way.

This brings us back to the recovery and why it will be a jobless one. The first reason has to do with the economic system itself. Today, America, especially, has fewer jobs than it did. And there are not a great many jobs coming online. The central banking economy has destabilized the survival-infrastructure of America, and also of Europe and Japan. During boom times people and communities tend to migrate away from jobs that allow them to be relatively self-sustaining. But central banking economies are subject to wild swings and thus the new jobs are often not sustainable. The dot.com jobs proved ephemeral. More recently mortgage-driven employment proved the same.

Second, the massive stimulation from central banks was not necessarily intended to create jobs, nor was much of the government stimulus. The stimulus ended up in Western banks. If the stimulus had gone to people, or even if there has been significant tax cuts, then Western economies would be creating more jobs already. But the various stimuli went to very large corporations for the most part and the financial sector. This led to something of a recovery in the marketplace, especially various stock markets - but just because banks are healthier and stocks are going up, it doesn't necessarily follow that jobs will be generated in any great quantity. In fact, the massive amount of stimuli, propping up companies that should have gone out of business, helps retard job growth. And then there's this:

Commercial Real Estate: 'Ticking Time Bomb' ... I don't know why all the wires are leading with the quote from Rep. Carolyn Maloney, D-NY today, that "The commercial real estate time bomb is ticking." I'd venture to say it's exploding

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all over the place. She made the comment at a hearing she chaired of Congress' Joint Economic Committee. - CNBC

Conclusion: The next shoe is going to drop sooner or later as we've pointed out. It should dent the stock market and will probably be the justification for yet another stimulus package - and apparently there may be one upcoming. But even then the economy will not be unwound. There are trillions in derivative bets that need to be dealt with. The green shoots in all this are questionable, but not a scenario that involves continued deleveraging and eventual inflation - and maybe a good deal of inflation.

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